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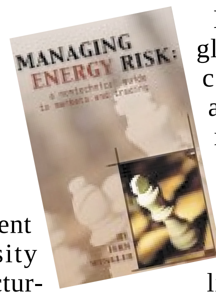
www.williams.com or www.energynewslive.com

REVIEWS

BOOK

Managing Energy Risk: A Nontechnical Guide to Markets and Trading

By John Wengler
2001 PennWell Publishing Co.
393 pages, $64.95



A continuing education student at Houston's Rice University recently asked a panel of lecturers: Did Enron collapse because it had transformed itself from a pipeline company into a commodities trading house, and during the metamorphosis had its board of directors been infected with the greed of the trading floor?

From a shareholder's point of view in the post-Enron world, nuts and bolts pipeline companies are clearly able to control themselves, and trading companies clearly cannot. The question was left unanswered, as the experts on hand danced around the tricky question of whether commodity trade houses are inherently prone to mismanagement—or even worse, "absent" management.

Managing Energy Risk: A Nontechnical Guide to Markets and Trading wanders into the minefield you end up in when you start down this road, and could be recommended as an essential read in 2002. The title betrays its actual purpose—it is less about trade theory than about how traditional energy utilities can marry Wall Street and Main Street without ending up in Tin Pan Alley. The book is designed to give useful advice to busy managers directly responsible for establishing firm control over the riskiest side of the energy business—trading.

You might not agree with the answers supplied by John Wengler, who doubles as an adjunct professor at the Illinois Institute of Technology and president of the consultancy SAVA Risk Management Corp. Indeed, the questions he asks are sometimes more interesting and provocative than his answers: How can you let a room full of traders make money, but prevent them from losing more than your company can stomach? Are you a "gladiator" in the office? Should you be?

In exploring these issues, Wengler purposefully steers clear of complex mathematics and abstract theory, and where explanation of complicated trading theories is necessary he does a good job of explaining them. Clearly designed with both armchair experts and front-line officers in mind, *Managing Energy Risk* is well laid out. Important points worth pondering for a few minutes between conference calls are marked as "Java Moments" (referring to coffee, rather than the programming language). Basic mark-to-market principles are elaborated throughout the book and peppered with clear graphical signposts.

The book is best when providing insight into the psychology and politics of the trading floor, and makes for fascinating reading. Weak risk management policy risks "the trading floor unwittingly (or consciously), setting the corporate policy from the bottom up," warns Wengler. The book examines how market players, in a throwback to the comfortable days of regulated industry, have tended to act like "consenting adults" in the new wholesale electricity markets, often discounting the risk of major corporate disasters. Hiring too many "quarterback" traders can upset the balance of your team, or lead to bullying on the trade floor.

There was a time not long ago when risk managers were as unfashionable as the engineers and accountants who, more often than not, had been promoted to the position. Books about the subject were similarly undervalued. Recent events have turned the spotlight back onto this side of the business, and anyone looking for a quick study would do well with this guide. ■

—Reviewed by David Ernsberger, Platts Houston bureau chief (derns@platts.com).